

2301 M St. N.W.
Washington, D.C. 20037-1484
202/467-2900 fax: 202/467-2910
www.APPAnet.org

Contact: Allen Mosher, 202/467-2944

REVAMP TO PUT CONSUMERS FIRST, APPA ADVISES FERC ON RTOs

WASHINGTON, D.C., Nov. 9, 2004 -- “The actual experience of APPA members has been that RTO design flaws and problematic initial conditions (particularly substantial transmission constraints and concentrated generation markets) have led to rising RTO costs and complexity, leaving consumers worse off than they were before the grand experiment with RTOS was initiated,” the American Public Power Association today reported in comments filed with the Federal Energy Regulatory Commission on its notice of inquiry on financial reporting and cost accounting for regional transmission organizations and independent system operators.

“APPA members also observe that the Commission has tended to give short shrift to existing regional institutions and innovations that could address many of the problems RTOs were formed to solve, but at much lower costs,” APPA added. “The fact is that RTOs will not be successful unless and until they revamp their operations to put the interests of consumers first and foremost.”

APPA, serving more than 2,000 not-for-profit electric utilities that purchase nearly 70 percent of the power used to serve their ultimate customers, made these major points:

- It is increasingly alarmed by spiraling RTO development and operations costs. APPA recently surveyed its members in RTO regions. Most responding members reported substantially increased costs—both direct costs payable to their RTOs and indirect costs incurred to participate in RTO markets and to cope with the RTO billings and settlements. APPA said the FERC cannot deal with RTO/ISO accounting and financial issues without also confronting this “elephant in the living room.”
- The Commission should revise its Uniform System of Accounts to reflect changes in industry structure and reallocation of electric power supply and delivery functions among industry participants. RTO/ISO costs and functions do not “map” well to the current USofA functions and accounts. The same types of problems occur when RTOs/ISOs submit Form 1s. APPA therefore suggests specific new functional categories, accounts, and reporting requirements for RTOs/ISOs, as well as individual transmission-owning public utilities participating in RTOs/ISOs.

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- Commission accounting and financial reporting requirements should allow stakeholders and regulators to identify easily the costs RTOs expend that carry out their various functions. In particular, they should be able to see clearly the costs that RTOs/ISOs expend to develop new functionalities and markets, separately from the ongoing costs of current RTO/ISO operations.
- APPA recommends that the Commission develop a revised “strawman” USofA and Form 1 reporting regime to account for RTO/ISO functions, and include these proposals in a formal Notice of Proposed Rulemaking (“NOPR”) issued in this docket. This NOPR should also explore mechanisms to contain and reduce RTOs costs, through more rigorous audits and rate reviews, increased stakeholder involvement in RTO/ISO rate and budget matters, and elimination of RTO cost centers and services that do not provide sufficient benefits to end-use consumers to justify their costs.

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